

# **THE LEONARD LETTER**

*A weekly electronic newsletter about  
California government, business and taxes*

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## **QUOTE OF THE WEEK**

*“Our fathers' God, to thee,  
author of liberty, to thee we sing;  
long may our land be bright  
with freedom's holy light;  
protect us by thy might, great God, our King.”  
--- Fourth Verse America (“My Country, ‘Tis of Thee”)*

## **AROUND THE STATE**

### **\*\*\*Conventional Wisdom\*\*\***

Conventional wisdom asserts that Governor Schwarzenegger will have an easier time beating Treasurer Phil Angelides than Controller Steve Westly in the November general election. I disagree. He will beat whichever one of them wins the Democrat primary, but no matter which one it is, the Governor will need to wage an all-out campaign. The pundits suggest that Westly is more moderate than Angelides and thus will command the center. While in mathematics the center is where the probabilities are most likely to fall, that is not necessarily true in politics. In politics, the center is also less likely to vote.

Angelides is the liberal poster boy. He will raise your taxes and, if I read his tone correctly, he will enjoy raising your taxes. He excites the left wing. He is the hero to government labor unions. He will usher in the liberal agenda that they once hoped Gray Davis would do. In short, his supporters will vote.

Westly, on the other hand, does not excite precisely because he is campaigning to the middle-- if he can find it. He will not raise your taxes first, but he will take more money from you through increased tax audits. He will use the E-Bay business model, which some read as high-tech efficiencies and others read as ignoring labor unions. While he may actually appeal to more people than Angelides, Westly's challenge is to excite those people enough to vote.

If Angelides wins the Democrat primary, then Schwarzenegger will be in a battle against lots of well-organized shock troops of desperate liberals who want in on the government action. If Westly wins the Democratic primary, then Schwarzenegger will be challenged to keep his

Republican base while competing with Westly for the moderate middle. Contrary to conventional wisdom, Westly may be 'easier' to beat than Angelides.

### **\*\*\*More Fun with Ballot Designations\*\*\***

Tomorrow voters will go to the polls and cast ballots for party nominees for statewide offices and local posts. Some voters will have done research, sought out candidates and decide their votes based on that information. Others will rely on lists of endorsements, slate card recommendations or even the local newspapers' editorials. Voters with less time, or interest, make their decisions on other factors: is the candidate a man or woman? Is the candidate's surname familiar or foreign? Whose name appears first on the ballot? Another method is to look at the candidates' ballot designations to see if their current career "fits" the office being sought. There are, of course, many candidates already serving in elected office, many attorneys, many business owners, and many teachers. Here are some of the more colorful ballot designations facing California voters:

Tax Scam Investigator

Mother/Artist/Entrepreneur (Actually, there are at least five candidates who list "mother" as part of their ballot title, three "father" listings, and another four who list "parent" as part of their titles.)

Mountain Rescue Director

Potter

Poet/Educator

Handyman

Lawn Artist

One of the more frequent ballot designation is "engineer" but there are many, many kinds of engineers, including: quality, civil, aerospace, chemical, software, structural, computer, electrical, steam, and physical process.

### **\*\*\*California Losing Political Clout\*\*\***

Steve Forbes wrote a terrific column a couple months ago looking at why certain states like Vermont and Iowa are losing population given that these states have the things that Americans like – great public education, low crime, less traffic and nice rural scenery. This runs counter to the trend that allows people to live anywhere because of technology. These states should be thriving. Forbes notes that both of these states have heavy tax burdens. In Iowa, the top income tax rate is about 9%, in Vermont 9.5%. But the shocker in Forbes piece is the news that for the first time in its 155 year history, California is projected not to gain, and perhaps even to lose, a congressional seat as a result of the 2010 census. Why? Well, California is a high tax, high regulation state, especially compared to Arizona (projected to gain two Congressional seats) and Texas (projected to pick up three).

Forbes is dead-on. Taxes matter, not only on the federal level, but particularly on the state and local levels.

Check out the census projection chart here: <http://www.polidata.org/census/st005nca.pdf>

## **UNDER THE DOME**

### **\*\*\*If CA Is Serious About Stopping Illegal Immigration\*\*\***

Each year at the underground economy conference I host in the state capitol, a theme that resonates is that laws are being broken and there are not enough investigators to stop the evaders. The stories they share demonstrate to me that illegal immigration is behind the underground economy, and they tell me that when a business is breaking one law, it is usually breaking many more. For example, employers who hire illegal immigrants often hire the most desperate people who have very few options but to take a job that pays lower than minimum wage. There are at least two broken laws. Those employers are also not paying for workers' compensation coverage for those employees, nor withholding taxes, and probably not too concerned with safety requirements either. Consider just the laws that the Board of Equalization enforces. Even businesses that properly hold a retail sales permit may still engage in under-the-table cash transactions that are impossible to track, much less tax. My point is that we cannot just point at the federal government for failing to enforce laws against illegal immigration and the underground economy. There is plenty that California elected officials and state agencies can do to identify employers who are ignoring the laws. My friend Steve Frank has written about this and his list of laws that should be enforced should be required reading for every California public official. His May 9, 2006 commentary at

<http://www.capoliticalnews.com/discuss.php?id=458>

includes a great list of enforcement actions that can be taken right now without passing any new laws.

### **\*\*\*From the Shores of Tripoli to the Mire of the BOE\*\*\***

If you think you have seen everything when it comes to horrible tax policies, I have a new one for you. The Board of Equalization is currently seeking to collect a huge state tax (known as the Integrated Waste Management "Fee") from the Marine Corps for operating a dump at federal expense on federal property at Camp Pendleton. The crazy part is that the Board is just following state and federal law the way it was clearly intended to apply. Although the federal government is generally exempt from state taxation, Congress explicitly waived the federal government's sovereign immunity from this type of state tax when it passed the Resource Conservation and Recovery Act of 1976. I had to read it to believe it. Instead of using military funds for body armor, ammunition, or salary increases for our underpaid troops, the Marines will be forced to spend their funds to pay a small fortune in dubious state taxes for which the Marines will receive no benefit of any kind. Somehow, I doubt this is what the Framers of the Constitution had in mind when they set up the federal system.

# MISCELLANY

## \*\*\*California County History\*\*\*

Lumber was the first industry in Madera County (the area enclosed by the crest of the Sierra Nevada on the east, by the Chowchilla River on the north and by the San Joaquin River on the south and west), giving rise to the name with in Spanish means “timber.” The county was given the name after the town of Madera, which was so named when the California Lumber Company built a flume to carry lumber to the railroad there in 1876. Part of the Sugar Pine Railroad is still a tourist attraction today. The flume is not still standing, but it was an engineering marvel in its time, bringing lumber from the Sierra Forest down to the town. You can see a replica of the flume at the county museum in the Madera courthouse.

Madera County separated from Mariposa County in 1855 when Fresno County was formed, and then in 1856 the rest of Madera County came into the current boundaries. As with so much of California, Madera’s first surge of population was during the gold rush. The early towns of the area reflect the obsession with mining: Coarsegold Gulch, Grub Gulch, Gold Creek and Fine Gold Gulch.

Madera claims to be the geographic center of California, though Fresno makes the same claim. Madera also identifies itself as the gateway to Yosemite. Indeed, Madera resident James D. Savage is credited with the “discovery” of Yosemite Valley on March 27, 1851, and he named it after the tribe which inhabited it.

## \*\*\*A Good Read\*\*\*

“Why Most Things Fail: Evolution, Extinction and Economics” by Paul Ormerod addresses “what is probably the most fundamental feature of both biological and human social and economic systems: failure. Species fail and become extinct, brands fail, companies fail, public policies fail.” Ormerod is concerned primarily with business failures, but he looks to biology for comparisons and patterns. He provides a brief history of capitalism and addresses a number of assumptions about the behavior and awareness of individuals, firms, species, etc. He finds the same failure rates in mindful human ventures as in natural occurrences. From this he concludes that the complexity, and thus apparent randomness, of the environment is significantly greater than generally believed. Or put another way, the world is far too complex to control and unintended consequences of any action are endemic. Indeed, this is why the so-called “planned economies” failed so spectacularly. Humans who are aware of such failure possibilities and the unintended consequences compensate by endless innovation. Innovation is what allows firms to find new ways to meet their customers’ needs, even when they cannot precisely determine why a previous product or strategy did not meet that need. Ormerod also concludes that even nominal increases in the overall useful knowledge by individuals and firms can make the overall society much more robust.

## BOE AND LEGISLATIVE DATES

**June 6, 2006** --- Primary election.

**June 13-14, 2006** --- BOE meets in Culver City.

**June 15, 2006** --- Budget bill must be passed by the legislature by midnight.

**June 27-28, 2006** --- BOE meets in Sacramento.

**June 29, 2006** --- Last day for a legislative measure to qualify for the general election (Nov. 7) ballot.

**July 4, 2006** --- Independence Day.

**July 18-19, 2006** --- BOE meets in Sacramento.

**August 16, 2006** --- BOE meets in San Diego.

## NOTABLE DATES/ HISTORY

**June 5, 1933** --- President Franklin D. Roosevelt signed legislation taking the United States off the gold standard, which had required that all paper money and coin be redeemable in gold.

**June 5, 1947** --- The U.S. Secretary of State, General George C. Marshall, called for a European Recovery Program (which became known as the Marshall Plan), funded by the United States, to help European countries recover from World War II.

**June 5, 1968** --- On the night he won the California Democrat presidential primary, Robert F. Kennedy, was shot by Sirhan B. Sirhan in Los Angeles. RFK died the next day.

**June 6, 1944** --- More than 150,000 Allied troops landed in German-occupied northern France. Known as D-Day, it was the largest seaborne invasion in history.

**June 7, 1892** --- In a first for a major U.S. political party, two women (Theresa Jenkins and Cora Carleton) attended Republican National Convention in an official capacity, as alternate delegates.

**June 7, 1965** --- In *Griswold v. Connecticut*, the Supreme Court ruled that laws banning birth control are an unconstitutional violation of privacy.

**June 8, 1969** --- James Earl Ray, who was later convicted for the assassination of Martin Luther King, Jr., was arrested at London Airport.

**June 8, 632** --- Muhammad, the founder of Islam, died in Medina.

**June 9, 1954 ---** During Senator Joseph McCarthy's televised hearings about spying in the military, Army counsel Joseph Welch asked McCarthy, "Have you no sense of decency, sir?"

**June 10, 1776 ---** The Continental Congress appointed Thomas Jefferson, Benjamin Franklin, John Adams, Roger Sherman, and Robert R. Livingston to write a statement of independence from Britain.

**June 10, 1964 ---** After a 75-day filibuster led by Southern Democrat Senators, the U.S. Senate voted 71-29 to close debate on the Civil Rights Bill, which passes the Senate nine days later.

**June 11, 1987 ---** Margaret Thatcher became the first U.K. prime minister elected to three consecutive terms in the 20th century.

## GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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